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Vicki Buchbach
Committee Manager
Standing Committee on Natural Resource Management (Climate Change)
Parliament House
Macquarie Street
SYDNEY NSW 2000

By email: Climate.Change@parliament.nsw.gov.au

Dear Ms Buchbach

INQUIRY INTO EMISSIONS TRADING SCHEMES

The NSW Minerals Council (NSWMC) welcomes the opportunity to provide comments to the Inquiry into Emissions Trading Schemes (the Inquiry). The impending introduction of a national emissions trading scheme (NETS) by the Federal Government in 2010 makes this a timely inquiry.

NSWMC represents the State's $12.5 billion mining industry, directly employing 47,000 people in mining and minerals processing, and supporting the employment of a further 200,000 people working in businesses that service the mining sector. The industry also comprises 35 per cent of the State's export income and contributes around $1.5 billion annually to Government revenue in royalties and taxes. Given the substantial economic and social contribution mining makes to the State, the industry clearly has a strong interest in ensuring that the NETS is properly designed.

The mining industry has an important role to play in responding to the climate change challenge given that fossil fuels will continue to be the world's primary energy source. NSWMC strongly believes that Australia's response to the challenge of climate change requires a suite of policy measures. In addition to an efficiently designed cap and trade emissions trading scheme, NSWMC believes that a range of complementary policies are required to ensure a smooth transition to a reduced greenhouse gas emission footprint. In particular, there must be investment and incentives for the accelerated development, demonstration and deployment of low emission technologies in Australia.

NSWMC has identified key issues for each of the Inquiry's terms of reference as follows:

(a) Costs and benefits for natural resource managers of national and international greenhouse gas emission trading schemes

While the actual costs and benefits of a NETS is dependent on the final design of the scheme, the introduction of a NETS will represent an unprecedented economic revolution in the Australian economy for a generation. Australia is acting in advance of all of its international competitors in introducing a scheme that limits greenhouse gas emissions. Accordingly, the scheme's design must include transition arrangements that will contain the impact on the Australian economy and community living standards, and not compromise the competitiveness of Australian industry. A scheme that reduces the competitiveness of Australian firms, leads to their closure or relocation abroad and/or the expansion of production in other locations, or renders Australia uncompetitive to new investment in particular sectors is neither economically efficient nor environmentally effective. The scheme must provide transitional support for trade exposed emissions intensive industries for as long as the competitive disadvantage (introduced by the NETS) exists.

The minerals industry must be accorded emissions intensive trade exposed status. The minerals industry is a price taker on international markets. The minerals industry is also a price taker for diesel fuel and bulk carriers, which are both vital for mining operations and for which there are no substitutes. Most of the minerals industry's competitors are in developing countries which are not currently considering emissions reductions. In the thermal coal export sector, for example, key competitors include Indonesia, Colombia, Russia, China and South Africa. The minerals industry is also emissions intensive due to substantial energy use. The substantial economic and social contribution of the mining industry, particularly to regional Australia, must be recognised with assistance provided to the industry to remain economically viable under an emissions trading scheme and to ensure the increases in the price of electricity to consumers and industry are contained.

NSWMC supports on equity grounds compensation for disproportionate loss where a firm is unable to pass on a significant portion of the increased costs of production of non-traded sector products due to the ETS and also faces a reduction in the economic life of its asset due to the introduction of a carbon price.

(b) Transitional arrangements for participants in the New South Wales emission scheme to a national scheme

NSWMC has provided a detailed submission to the Department of Water and Energy's Consultation Paper Transitional arrangements for the NSW Greenhouse Gas Reduction Scheme (the Paper), dated April 2008. The following key principles must be achieved in the transition from the NSW Greenhouse Gas Reduction Scheme (GGAS) to the NETS:

1. No net loss for scheme participants

NSWMC strongly believes that an underlying principle of the transitional arrangements must be that there is no net loss for Scheme participants, particularly given the environmental benefits gain through the abatement activity. This will ensure that early abatement is not penalised and will encourage ongoing abatement activity. This principle must apply regardless of whether the activity generates NSW Greenhouse Abatement Certificates (NGACs) or Large User Abatement Certificates (LUACs).

The Government must publicly and expressly commit to ensuring the principle of no net loss as soon as possible. This will provide investors with ongoing confidence to ensure continued investment in greenhouse gas reduction activities. In the past year, there has been a significant collapse in the NGAC market due to the uncertainty introduced by an impending NETS. It is important that investor confidence is restored and not further eroded.

2. Full compensation for existing property rights

Holders of unused abatement certificates, both NGACs and LUACs, at the cessation of GGAS must be provided with the certainty that their property rights will be preserved. This is important to promote investor confidence and sustain the credibility and integrity of the GGAS in the remaining years of the scheme.

3. Tonne for tonne credit

The calculation of the exchange of credits from GGAS to NETS must be on the actual tonnes of abatement, not on carbon price differentials (if any) between the two schemes. This will provide certainty for participants and achieve some simplicity in the transition process.

4. Simplicity

Any transitional arrangements need to be easy to understand and apply for GGAS participants particularly given the current complexities with the administration of GGAS and uncertainties surrounding a NETS.

(c) Economic and environmental implications for the State of offset activities

The NSW mining industry has made significant investment in abatement activities primarily through the abatement of coal seam methane emissions by power generation and flaring. It is critical that the property rights arising from the industry's participation in GGAS are properly compensated in the transition to NETS. The NSW Government must ensure that greenhouse gas abatement activities continue (in the short to medium term) to ensure that the environmental outcomes (reduced greenhouse gas emissions) are maintained.

The Garnaut Review ETS discussion paper proposes that domestic offsets should be accepted without limits. However offsets will have a smaller role as they will only apply to areas that are not covered by the scheme. NSWMC understands that the minerals industry will be a covered sector and therefore the current offset activities in the mining industry will not be eligible to create offset credits. The loss of credit revenue as a result of the introduction of the ETS emphasizes the need for proper compensation to be provided in the transition process.

We appreciate the opportunity to make a submission to the Inquiry and look forward to being kept up to date with the Inquiry's progress. Should you wish to discuss any of the information above, please contact Sue-Ern Tan, Director Policy & Strategy, on stan@nswmin.com.au or (02) 9274 1416.

Yours sincerely

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